

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (22-HJR 35)**

Subject

House Committee Substitute for House Joint Resolution No. 35. (Received June 3, 2021)

Date

June 23, 2021

Description

This proposal would amend Article IV of the Constitution of Missouri.

The amendment is to be voted on in November 2022.

Public comments and other input

The State Auditor's office requested input from the **Attorney General's office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education and Workforce Development**, the **Department of Health and Senior Services**, the **Department of Commerce and Insurance**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's office**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Department of Transportation**, the **Office of Administration**, the **Office of State Courts Administrator**, the **Missouri Senate**, the **Secretary of State's office**, the **Office of the State Public Defender**, the **State Treasurer's office**, **Adair County**, **Boone County**, **Callaway County**, **Cass County**, **Clay County**, **Cole County**, **Greene County**, **Jackson County**, **Jasper County**, **St. Charles County**, **St. Louis County**, **Taney County**, the **City of Cape Girardeau**, the **City of Columbia**, the **City of Jefferson**, the **City of Joplin**, the **City of Kansas City**, the **City of Kirksville**, the **City of Mexico**, the **City of Raymore**, the **City of St. Joseph**, the **City of St. Louis**, the **City of Springfield**, the **City of Union**, the **City of Wentzville**, the **City of West Plains**, **Cape Girardeau 63 School District**, **Hannibal 60 School District**, **Malta Bend R-V School District**, **Mehlville School District**, **Wellsville-Middletown R-1 School District**, **State Technical College of Missouri**, **Metropolitan Community College**, **University of Missouri**, and **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's office** indicated they expect that, to the extent that the enactment of this proposal would result in increased litigation, they expect that their

office could absorb the costs associated with that increased litigation using existing resources. However, if the enactment of this proposal were to result in substantial additional litigation, their office may be required to request additional appropriations.

Officials from the **Department of Agriculture** indicated no fiscal impact on their department.

Officials from the **Department of Economic Development** indicated no fiscal impact to their department.

Officials from the **Department of Elementary and Secondary Education** indicated no impact to their department.

Officials from the **Department of Higher Education and Workforce Development** indicated no impact.

Officials from the **Department of Health and Senior Services** indicated this initiative petition has no impact.

Officials from the **Department of Commerce and Insurance** indicated this resolution, if passed, will have no cost or savings to their department.

Officials from the **Department of Mental Health** indicated this proposal creates no direct obligations or requirements to their department that would result in a fiscal impact.

Officials from the **Department of Natural Resources** indicated they would not anticipate a direct fiscal impact from this proposal.

Officials from the **Department of Corrections** indicated no fiscal impact.

Officials from the **Department of Labor and Industrial Relations** indicated they anticipate no fiscal impact for the House Committee Substitute for House Joint Resolution No. 35 proposing to amend Article IV.

Officials from the **Department of Revenue** indicated no impact.

Officials from the **Department of Public Safety - Office of the Director** indicated no impact for their department.

Officials from the **Department of Social Services** indicated this will have no fiscal impact for their department.

Officials from the **Governor's office** indicated this proposal relating to the duties of the State Treasurer should not fiscally impact their office.

Officials from the **Missouri House of Representatives** indicated no fiscal impact.

Officials from the **Department of Conservation** indicated there is no anticipated fiscal impact (cost or savings) to their department associated with this proposal.

Officials from the **Department of Transportation** indicated this legislation would have no fiscal impact to their department/Missouri Highways and Transportation Commission.

Officials from the **Office of Administration** indicated this proposal relating to the duties of the State Treasurer should not fiscally impact their office.

Officials from the **Office of State Courts Administrator** indicated there is no fiscal impact on the courts.

Officials from the **Missouri Senate** indicated they anticipate no fiscal impact.

Officials from the **Secretary of State's office** indicated each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Referendums are submitted to the people at the next general election. Article III section 52(b) of the Missouri Constitution authorizes the general assembly to order a special election for measures referred to the people. If a special election is called to submit a Referendum to a vote of the people, Section 115.063.2 RSMo. requires the state to pay the costs. The cost of the special election has been estimated to be \$7 million based on the cost of the 2020 Presidential Preference Primary.

Their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In fiscal year (FY) 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY19, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. Their office estimates \$75,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

Their office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, they reserve the right to request funding to meet the cost of their publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Officials from the **Office of the State Public Defender** indicated no fiscal impact for their office.

Officials from the **State Treasurer's office** indicated the following is the fiscal note for the Truly Agreed to and Finally Passed (TAFP) version of HJR 35. Their projected fiscal impact can be found within this fiscal note. They have no changes to the information they submitted for the preparation of this fiscal note.

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0587H.03T
Bill No.: Truly Agreed To and Finally Passed HCS for HJR 35
Subject: Treasurer, State; Bonds - General Obligation And Revenue
Type: Original
Date: June 1, 2021

Bill Summary: Modifies provisions for the State Treasurer's ability to invest.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$0 or (More than \$7,000,000)	\$0 or could exceed \$2,225,000	\$0 or could exceed \$2,225,000
Total Estimated Net Effect on General Revenue	\$0 or (More than \$7,000,000)	\$0 or could exceed \$2,225,000	\$0 or could exceed \$2,225,000

*The potential fiscal impact of “(More than \$7,000,000)” in FY 2022 would be realized only if a special election were called by the Governor to submit this joint resolution to voters.

Oversight has ranged the fiscal impact in future years from \$0 (joint resolution is defeated by voters), to the potential increase in investment income from allowing the Office of the State Treasurer to modify the investment portfolio.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☒ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0*	\$0	\$0

*Transfer out and transfer in nets to zero **if** the Governor calls a special election.

FISCAL ANALYSIS

ASSUMPTION

Officials from **Office of the Secretary of State** assume, each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the Governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be \$7 million based on the cost of the 2020 Presidential Preference Primary.

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY19, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates \$65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, they reserve the right to request funding to meet the cost of their publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected, in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2022. This reflects the decision made by the Joint Committee on Legislative Research that the potential cost of the elections should be shown in the fiscal note. The next scheduled statewide primary election is in August 2022 and the next scheduled general election is in

November 2022 (both in FY 2023). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor (a different date). Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2022.

Officials from the **Office of the State Treasurer (STO)** assume, with an expanded option of investments, they could increase interest income (at the current rates) to the General Revenue Fund by \$935,000 annually.

Current investment return	0.50%
Current US Taxable GO AA+, AA, AA- Muni BVA return	0.72%

If the STO were to invest in Missouri Bonds, it would not exceed 5%-10% of the portfolio.

7.5% of the portfolio	\$425,000,000
Return on current investments (0.50%)	\$ 2,125,000
Anticipated return on Muni Bonds (0.72%)	\$ 3,060,000
Difference	\$ 935,000

If the STO were to invest in 6 or 7 year Agency Bonds, it would not exceed \$500M of the portfolio.

Portfolio size	\$500,000,000
Return on 5 year Agency Bonds	\$ 4,175,000
Return on 6 or 7 year Agency Bonds	\$ 5,465,000
Difference	\$ 1,290,000

Oversight notes according to the STO's Portfolio Management Report from April 30, 2021, the STO had the following investments (Market Value):

U.S. Treasury Securities – Coupon	\$ 289,994,138
U.S. Agency Discount Notes	\$ 69,998,756
U.S. Agency Issues – Coupon	\$ 457,524,485
Amortizing Commercial Paper	\$ 747,954,703
U.S. Agency Issues – Callable	\$3,174,994,578
Term Repo	\$ 633,111,000
Overnight Repos	\$1,377,106,000
Time Deposits – Market	\$ 82,250,000
Linked Deposits	\$ 195,642,267
Linked Deposits – FFCB	\$ 134,348,000
CDs	\$ 240,000
Investments	\$7,163,163,927

The effective Rate of Return for January, 2021 was 0.46% and the fiscal year to date was 0.50%

Oversight will range the potential increase in interest income from \$0 (HJR is defeated by voters), to the estimates provided by STO. For simplicity, Oversight will reflect the additional interest income starting in FY 2023.

Officials from the **Department of Revenue** and the **Office of Administration** each assume the proposal would not fiscally impact their respective departments. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Income</u> – STO potential increase in interest income if the STO invests in Missouri municipal bonds	\$0	\$0 or could exceed \$935,000	\$0 or could exceed \$935,000
<u>Income</u> – STO potential increase in interest income if the STO invests in longer term bonds	\$0	\$0 or could exceed \$1,290,000	\$0 or could exceed \$1,290,000
<u>Transfer Out</u> - SOS - reimbursement of local election authority election costs if a special election is called by the Governor	\$0 or (More than <u>\$7,000,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 or (More than <u>\$7,000,000</u>)	<u>\$0 or could exceed \$2,225,000</u>	<u>\$0 or could exceed \$2,225,000</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - Local Election Authorities - reimbursement of election costs by the State for a special election	\$0 or More than \$7,000,000	\$0	\$0
<u>Costs</u> - Local Election Authorities - cost of a special election if called for by the Governor	\$0 or (More than <u>\$7,000,000</u>)	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

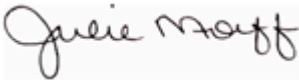
FISCAL DESCRIPTION

Upon voter approval, this proposed Constitutional amendment would change the authorized investments in which the State Treasurer could invest.

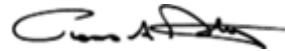
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Revenue
Office of Administration
Office of the State Treasurer



Julie Morff
Director
June 1, 2021



Ross Strobe
Assistant Director
June 1, 2021

Officials from **Clay County** indicated they estimate an increase in interest/investment earnings of ~\$25,000 a year as a result of this resolution.

For some clarifying explanation, as requested, the county's approved investment policy is tied directly to Article IV, Section 15, of the Missouri Constitution as well as RSMo 110.270. The lengthening in duration for investments to seven years from five years, they estimate based on higher yields, would result in more interest/investment earnings to their county. This along with the expansion to municipal holdings and other "reasonable and prudent" investments is how they made the ~\$25,000 determination.

Officials from **Greene County** indicated there are no estimated costs or savings to report from their county for House Committee Substitute for House Joint Resolution No. 35 proposing to amend Article IV.

Officials from the **City of Columbia** indicated:

Their local government estimates the fiscal impact of this bill for fiscal years 2022, 2023, and 2024 to be as follows:

Section 15 of the bill will allow the city to invest in municipal bonds. Depending on whether the citizen approves the bill, the City of Columbia may gain interest income ranging from \$0 (if the voters reject the bill) to \$9,832 per FY starting from 2023.

According to the Office of the State Treasurer (STO), municipal short-term and long-term bond interest rates are higher by 0.22% and 0.03% compared to conventional money market securities. It is unknown at this time how much the city, if any, would decide to invest in short-term and long-term bonds, however; every 1% of their total assets (4,000,000) invested could increase the city's interest income under each category by \$8,800 and \$1,032 per fiscal year, as shown below:

Fiscal Impact-City of Columbia	Rate Increase	FY 2023	FY 2024
1% of Total Portfolio in Municipal Bond	@0.22%	\$8,800	\$8,800
1% of Total Portfolio longer term Bond	@0.03%	\$1,032	\$1,032
Total		\$9,832	\$9,832

Officials from the **City of Kansas City** indicated this proposed amendment if passed could have a negative fiscal impact on their city given the unintended consequences of the legislation. The concern is that the 7-year note will almost never be favorable to the current 5-year allowed. This means a city or taxing jurisdiction may opt for the less favorable 7 year note.

According to their Finance Department:

The unintended consequences are in reference to the Federal Reserve's action to provide excess liquidity to the financial markets for the past 16 months. While the Federal Reserve's actions have averted a depression-like environment, there are unintended consequences to these actions which harm fixed-income investors. Currently, just to give you a reference,

1-year Treasury Bills are trading at 4 basis points, 2-year Treasury Notes are trading at 15 basis points, 5-year Treasury Notes are around 80 basis points, and 7-year Treasury Notes are trading around 120 basis points. These rates are currently positively-sloped, thus you would expect the more risk taken, the greater reward received.

Let us say that you buy 7-year Treasury Notes today at 120 basis points. Two-years from today, with a positively-sloping yield curve, say the Federal Funds rate is at 150 basis points. This means that the you have five more years to hold on to these original 7-year Treasury Notes to maturity or sell at a substantial loss. Whereas, if you leave the current 5-year maximum maturity in place you would now have only 3-years to remain underwater vs. the previously stated 5 years. With a positively-sloping yield curve, in the event of a sale you would suffer less of a loss than if you tried to sell the aforementioned original 7-year Treasury notes.

Another unintended consequence is that with rates so depressed, brokers in the governmental space are making less income in the current interest rate environment. Many municipalities use brokers to gain access to the financial markets. A dishonest broker can load a municipality up on 7-year paper. Granted the rate is better, but also the commission is better. An unsuspecting, smaller municipality employee who is wearing many hats, may decide to buy the longer-maturity paper, which may or may not be in the municipality's best interest. The maximum maturity for the State of Missouri is currently at 5 years. This proposal will open it up to a 7-year maximum maturity.

Officials from **Metropolitan Community College** indicated no fiscal impact to their college.

The State Auditor's office did not receive a response from **Adair County, Boone County, Callaway County, Cass County, Cole County, Jackson County, Jasper County, St. Charles County, St. Louis County, Taney County, the City of Cape Girardeau, the City of Jefferson, the City of Joplin, the City of Kirksville, the City of Mexico, the City of Raymore, the City of St. Joseph, the City of St. Louis, the City of Springfield, the City of Union, the City of Wentzville, the City of West Plains, Cape Girardeau 63 School District, Hannibal 60 School District, Malta Bend R-V School District, Mehlville School District, Wellsville-Middletown R-1 School District, State Technical College of Missouri, University of Missouri, and St. Louis Community College.**

Fiscal Note Summary

State governmental entities estimate no costs and increased interest revenue of \$2 million per year. Local governmental entities estimate no costs and increased interest revenue of at least \$34,000 per year.